

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AGRE-00 CEA-01 CIAE-00
DODE-00 EB-08 FRB-01 H-02 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-02 CTME-00 AID-05 SS-15
STR-05 ITC-01 USIA-15 PRS-01 SP-02 SOE-01 OMB-01
DOE-12 XMB-04 OES-07 DOEE-00 SSO-00 NRC-07 /153 W
-----118228 212019Z /42

P R 211759Z DEC 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 1507
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

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USEEC ALSO FOR EMBASSY
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DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: EXCHANGE CONTROL LIBERALIZATION

SUMMARY: HMTREASURY ANNOUNCED TODAY MEASURES IT WILL TAKE
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ON JANUARY 1, 1978 TO LIBERALIZE ITS FOREIGN EXCHANGE CON-
TROL LAWS. THE EFFECT OF THESE STEPS ON THE BALANCE OF
PAYMENTS IS ONLY ESTIMATED IN THE CASE OF ABOLISHING THE
25 PERCENT SURRENDER RULE, WHICH IS THE ONLY MEASURE AF-
FECTING ALL COUNTRIES. THE REMAINING CHANGES AFFECT ONLY
TRANSACTIONS WITH RESIDENTS OF THE EEC.

THE HM TREASURY ANNOUNCEMENT OF, AND NOTES ON THE MEASURES FOLLOW. END SUMMARY.

1. FOLLOWING DISCUSSIONS BETWEEN THE UNITED KINGDOM GOVERNMENT AND THE COMMISSION OF THE EUROPEAN COMMUNITY ABOUT EEC PROVISIONS FOR LIBERALIZING CAPITAL MOVEMENT, IT HAS BEEN DECIDED TO MAKE CERTAIN ALTERATIONS IN UK EXCHANGE CONTROL RULES. THESE ARE DESCRIBED BELOW. ALL OTHER EXCHANGE CONTROLS CONTINUE IN FORCE AND THE COMMISSION HAVE AUTHORIZED, UNDER ARTICLE 108(3) OF THE EEC TREATY, THE MAINTENANCE OF THE REMAINING RESTRICTIONS ON THOSE CAPITAL MOVEMENTS WHICH ARE COVERED BY THE RELEVANT EEC DIRECTIVES.

2. THE ALTERATIONS, WHICH WILL HAVE EFFECT FROM JANUARY 1, 1978, COMPRISE:

- A. CHANGES IN THE CONDITIONS GOVERNING THE AVAILABILITY OF OFFICIAL EXCHANGE FOR OUTWARD DIRECT INVESTMENT IN OTHER EEC COUNTRIES UNDER THE "SUPER-CRITERION" ARRANGEMENTS;
 - B. INCREASES IN THE LIMITS FOR PERSONAL CAPITAL MOVEMENTS IN AN EEC CONTEXT INVOLVING EMIGRATION, CASH GIFTS AND DOWRIES;
 - C. ABOLITION OF THE REQUIREMENT THAT 25 PERCENT OF THE PROCEEDS OF SELLING FOREIGN CURRENCY SECURITIES MUST BE SOLD IN THE OFFICIAL, NOT THE IN-
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VESTMENT CURRENCY, MARKET;

- D. NEW ARRANGEMENTS FOR LOAN-FINANCED PORTFOLIO INVESTMENT IN QUOTED SECURITIES ISSUED BY THE EUROPEAN ECONOMIC COMMUNITY, THE EUROPEAN INVESTMENT BANK, THE EUROPEAN COAL AND STEEL COMMUNITY AND EURATOM.

3. DETAILS OF THE ALTERATIONS WILL BE CONTAINED IN SUPPLEMENTS TO THE RELEVANT EXCHANGE CONTROL NOTICES TO BE ISSUED SHORTLY BY THE BANK OF ENGLAND.

4. NOTES. ARTICLES 120 AND 124 OF THE TREATY OF ACCESSION PROVIDED THE UK WITH A 5-YEAR TRANSITION TO THE EEC REGIME OF CAPITAL MOVEMENT. AT PRESENT, APART FROM CERTAIN RELAXATIONS IN CONNECTION WITH PEOPLE WHO GO TO OTHER EEC COUNTRIES TO WORK, UK EXCHANGE CONTROLS RESTRICT MOST CAPITAL MOVEMENTS TO THE EEC. WHERE LIBERALIZATION HAD BECOME DUE UNDER THE TREATY OF ACCESSION, THE PRESENT RESTRICTIONS HAVE BEEN AND ARE AUTHORIZED BY THE EEC COMMISSION UNDER ARTICLE 108(3) OF THE EEC TREATY. A FURTHER AUTHORISATION HAS NOW BEEN GIVEN IN RESPECT TO PORTFOLIO INVESTMENTS DUE TO BE LIBERALISED FROM JANUARY

1, 1978.

IN MORE DETAIL, THE ALTERATIONS IN EXCHANGE CONTROL
RULES EFFECTIVE FROM JANUARY 1, 1978 ARE:

5. "SUPER-CRITERION" FOR DIRECT INVESTMENT.

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FM AMEMBASSY LONDON
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FOR PROJECTS IN EEC COUNTRIES, THE SUPER-CRITERION
WILL ALLOW FOR OFFICIAL EXCHANGE UP TO THE EQUIVALENT OF
500,000 POUNDS (250,000 POUNDS STILL ELSEWHERE) OR 50
PERCENT OF THE TOTAL COST TO THE UK OF THE INVESTMENT,
WHICHEVER IS THE GREATER, IF THE INVESTMENT DIRECTLY PRO-
MOTES EXPORTS OF UK GOODS AND/OR SERVICES AND IS JUDGED
LIKELY TO PRODUCE BENEFITS TO THE BALANCE OF PAYMENTS
EQUAL TO OR EXCEEDING THE AMOUNT INVESTED WITHIN THREE

YEARS (18 MONTHS STILLFOR PROJECTS ELSEWHERE) AND CONTIN-
UING THEREAFTER.

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6. PERSONAL CAPITAL MOVEMENTS.

THE NEW LIMITS APPLICABLE FOR DESTINATIONS IN OTHER
EEC COUNTRIES ARE:

- I. FOR EMIGRATION, UP FROM 40,000 POUNDS TO
80,000 POUNDS BASIC ALLOWANCE OF OFFICIAL
EXCHANGE PER FAMILY UNIT;
- II. FOR CASH GIFTS, UP FROM 1,500 POUNDS TO
3,000 POUNDS PER DONOR PER YEAR;
- III. FOR DOWRIES, UP FROM 3,600 TO 7,500 POUNDS
FROM A PARENT IN ANY ONE YEAR (ADDITIONAL
TO II ABOVE).

7. "25 PERCENT REQUIREMENT".

SINCE 1965 THERE HAS BEEN AN EXCHANGE CONTROL RE-
QUIREMENT THAT, WHENEVER A UK RESIDENT SELLS OR OTHERWISE
RECEIVES THE LIQUIDATION PROCEEDS OF A FOREIGN CURRENCY
SECURITY, 25 PERCENT OF THE PROCEEDS MUST BE DISPOSED OF
THROUGH THE OFFICIAL FOREIGN EXCHANGE MARKET AND ONLY
THE REMAINING 75 PERCENT SOLD WITH THE BENEFIT OF THE
INVESTMENT CURRENCY PREMIUM. THIS HAS RESULTED IN A
YIELD TO THE UK RESERVES RECENTLY RUNNING AT ABOUT 200
MILLION POUNDS A YEAR. THE 25 PERCENT REQUIREMENT IS
ABOLISHED WITH EFFECT FROM JANUARY 1, 1978 IN RELATION
TO ALL FOREIGN CURRENCY SECURITIES.

8. LOAN-FINANCED PORTFOLIO INVESTMENT.

UNDER CURRENT RULES, PROFESSIONAL MANAGERS OF SECURI-
TIES MAY BE ALLOWED TO BORROW FOREIGN CURRENCY (OR AR-
RANGE SUCH BORROWING ON BEHALF OF UK RESIDENT CLIENTS) TO
FINANCE OUTWARD PORTFOLIO INVESTMENT INSTEAD OF HAVING TO
USE INVESTMENT CURRENCY. SUCH LOANS ARE REPAYABLE ONLY
OUT OF THE REALISATION PROCEEDS OF THE FOREIGN CURRENCY
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SECURITIES SO ACQUIRED OR, IN THE EVENT OF A SHORTFALL,
WITH INVESTMENT CURRENCY. UNDER THE NEW "LOAN PORTFOLIO"
ARRANGEMENTS, REPAYMENT OF BORROWINGS MADE TO BUY QUOTED
SECURITIES OF THE EUROPEAN COMMUNITY BODIES NAMED IN PARA-
GRAPH 2D ABOVE WILL BE ALLOWED TO BE MADE
OVER A PERIOD OF 5 YEARS WITH OFFICIAL EXCHANGE.

9. APART FROM THE INFLOW FORGONE BY ABOLISHING THE 25 PERCENT REQUIREMENT, NO FIGURES CAN BE GIVEN TO SHOW THE LIKELY BALANCE OF PAYMENTS EFFECT OF THESE CHANGES, SINCE MANY UNPREDICTABLE FACTORS COULD AFFECT DECISIONS BY INDIVIDUALS AND COMPANIES WHETHER OR NOT TO AVAIL THEMSELVES OF THE NEW RULES.

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